Cochrane-Dunlop Limited Annual Report 1976

COCHRANE-DUNLOP LIMITED

HIGHLIGHTS

	1976	1975
Sales	$67,089,440	*$62,882,800*
Net income	$ 928,220	*$ 1,233,654*
Net income per share	$1.00	*$1.35*
Total assets	$25,414,930	*$22,835,012*
Working capital	$ 9,053,904	*$ 9,823,261*
Shareholders' equity		
—total	$13,363,745	*$12,795,262*
—per share	$14.42	*$13.81*

REPORT OF THE DIRECTORS TO THE SHAREHOLDERS

In our annual report for 1975 it was indicated that, while uncertainties within the Canadian economy made it very difficult to assess prospects for 1976, we were optimistic as to our ability to benefit from a number of specific opportunities for development during the year. While significant growth has been achieved in these selected areas, the general economic climate in all operating locations has had a broad restraining influence on the expected pattern of sales growth for 1976. Customers' restraint in inventory accumulation has been apparent and this too has affected sales levels generally. At the same time, in a climate of relatively free supply, profit margins, have been restricted while costs for supplies, particularly those related to energy, labour and other services, have continued to increase.

The effect of these factors is an operating result which is below expectations but which cannot be said to have been unsatisfactory in view of the Canadian business environment during the year and the forward moves which have been initiated. These are outlined in detail later in this report.

The financial statements of Cochrane-Dunlop Limited for the year ended December 31, 1976, which include the operations of all subsidiary companies and the report of the auditors thereon, are submitted on behalf of your Board of Directors.

Sales

Sales for the 1976 year at $67.1 million were 6.7% over sales for 1975. A significant factor in this increase is dealer division volume which reflects both the successful promotion of the "Dominion Hardware" franchise programme and the expansion of dealer supply services into new market areas. While specific industrial supply branches showed good progress in the year, particularly those branches which support mining activities having a world demand, branches supporting general activities experienced the effect of the feeling of commercial uncertainty in the country as a whole; giving rise to inventory reductions, and restrained capital expenditure. While progress is being made, sales penetration of the industrial supply branch in Toronto has not yet reached designed levels and its operation is being reviewed intensively.

Earnings

Consolidated net income for the year was $928 thousand or $1.00 per share outstanding, compared with $1,234 thousand or $1.35 per share in 1975.

The moderating effect of economic conditions on the rate of overall sales growth has been referred to. Of equal significance to the results achieved in 1976 is the general reduction in gross margins. Markets for your Company's product became more competitive in 1976 as demand levelled off and as supplies became more readily available than in previous years. The profit impact of inflation on margins and on year-end inventory values was reduced as the rate of price inflation decreased from the rates of 1974 and 1975. This trend was apparent during the year but the signifi-

cance of the trend was not detailed until the end of 1976 when inventory evaluations were made. The resulting adjustments are reflected in fourth quarter operating results.

Operating expenses were influenced by the Government's programme of compensation, price and profit controls; however cost factors reflect in part, an annualizing of inflation's effect on costs from prior years and in part costs of items not subject to restraint, notably the cost of energy-based services: heating, transportation, etc.

Current bank financing has been utilized to support increased investment in inventories and in capital facility expansion with a resulting effect on borrowing costs. Rates of interest decreased somewhat at the end of the year, however demand for funds remained high and interest cost is expected to be an increasing cost factor.

New Branch Facility

A major undertaking initiated in 1976 was the development of a new warehouse and branch facility in Calgary, Alberta.

The Calgary warehouse is a 50,000 square foot modern structure located in an industrial suburb of Calgary. The branch is located in a market area which is active and which appears to have better than average growth potential. Prior to making this move, in 1976, the market was surveyed in detail and while considerable development has already taken place, there appears to be a promising opportunity for the industrial supply service in which your company specializes. Prospects for future growth in the area are attractive.

Basic construction of a warehouse was completed in 1976 and finishing details and basic inventory stocking are nearly completed. The branch is now in operation and sales arrangements are developing well. Expenses of approximately $75,000 incurred in preliminary activities associated with the branch introduction, have been incorporated as operating expenses in 1976. Capital expenditures of $1,100,000 are reflected in the total of fixed asset additions in 1976.

Fixed Assets

The major item in the significant investment in fixed assets during 1976 was the construction of the new Calgary facility referred to above. Other expenditures included the balance of the costs of completion of a steel warehouse in Saskatoon, Saskatchewan, which was started in 1975; renovation and improvement of a warehouse at Elliot Lake, Ontario; additional units added by the Toronto dealer supply branch for the electronic order-entry system; and general equipment and facility renovation and upgrading, including improvements to several wholly-owned retail outlets. Land acquisitions included the purchase of the property at the Copper Cliff retail store, (previously leased); and additional space adjacent to the Thunder Bay wholesale branch, which will be used for regular branch operations. Additional warehouse space has been leased adjacent to the Toronto dealer supply warehouse premises.

All additions during the year have been financed through regular bank credit arrangements, and this has resulted in a reduction in working capital for the year.

Dividends

The Corporation is subject to mandatory compliance with controls under the Anti-Inflation Act. Dividend payments, all paid on a "tax deferred" basis out of tax paid undistributed surplus on hand as defined in the Income Tax Act, have been made to the maximum amount permitted.

The control year for dividends under the Anti-Inflation Act is the year ended October 13th and accordingly in the 1976 fiscal year, dividends at the regular rate of 5¢ per share per quarter were paid and an extra year-end dividend of 13¢ was declared payable on January 31, 1977, making the total dividend for the year 33¢. Present controls will permit continuation of the dividend payments of 5¢ per quarter although these controls continue at the present time only until October 13, 1977 and policy beyond that date has not been formally determined.

Recently proposed budget amendments appear to have a significant effect on corporate distribution policies. The effect of these amendments is presently being considered.

Prospects for the Future

Recent government announcements have given a clear indication that there exists an intention to reinstate incentives to business as a means of removing the feeling of uncertainty which existed in Canada in 1976. Partial recognition of the impact of income taxes on inflation based profits through an adjustment to taxable income in 1977 based on opening inventory values will have a significantly favourable effect on future results of the company and this, and similar measures, will also affect major customers. The cumulative effects of policy decisions in the private sector have an immediate effect on our sales volumes. We are strategically located in all of our branches to take advantage of any improvement in business investment in the future and believe that the stage for this trend has now been set. Furthermore, changes in the company's operations, and in particular the unlimited possibilities for our new branch in Alberta, lead us to conclude that we can look to the future with confidence in a growth pattern equalling or exceeding that of the last ten years.

On behalf of the Board
April 12, 1977

F. Cochrane
President

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 1976

	1976	1975
Sales	$67,089,440	*$62,882,800*
Costs and expenses, exclusive of the following items:-	64,130,273	*59,367,005*
Depreciation	333,433	*290,045*
Remuneration of directors and senior officers	270,500	*256,550*
Interest on bank indebtedness	547,014	*465,546*
	65,281,220	*60,379,146*
Income before income taxes	1,808,220	*2,503,654*
Income taxes	880,000	*1,270,000*
Net income for the year	$ 928,220	*$ 1,233,654*
Net income per common share for the year	$1.00	*$1.35*

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1976

	1976	1975
Balance, beginning of year	$12,261,562	*$11,422,203*
Net income for the year	928,220	*1,233,654*
	13,189,782	*12,655,857*
Deduct:		
Dividends—common shares	305,737	*332,227*
—Class "A" shares	—	*3,418*
	305,737	*335,645*
Tax paid on undistributed income	54,000	*58,650*
	359,737	*394,295*
Balance, end of year	$12,830,045	*$12,261,562*

(See accompanying notes)

COCHRANE-DUNLOP LIMITED

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1976

ASSETS

	1976	1975
Current assets:		
Cash	$ 11,587	$ 7,470
Accounts receivable	7,963,891	7,879,889
Merchandise inventory	12,521,110	11,326,937
Prepaid expenses and other assets	608,501	648,715
	21,105,089	19,863,011
Fixed assets, at cost:		
Buildings and equipment	5,343,447	4,144,463
Furniture and fixtures	1,949,308	1,704,572
Automotive equipment	297,172	256,386
	7,589,927	6,105,421
Less accumulated depreciation	4,332,629	4,018,963
	3,257,298	2,086,458
Land	1,052,543	885,543
	4,309,841	2,972,001
	$25,414,930	$22,835,012

LIABILITIES AND SHAREHOLDERS' EQUITY

	1976	1975
Current liabilities:		
Bank indebtedness	$ 6,397,883	$ 3,710,274
Accounts payable and accrued charges	4,897,432	5,297,211
Income and other taxes payable	589,104	828,440
Dividends payable	166,766	203,825
	12,051,185	10,039,750
Shareholders' equity:		
Share capital (note 2)	533,700	533,700
Retained earnings	12,830,045	12,261,562
	13,363,745	12,795,262
	$25,414,930	$22,835,012

On behalf of the Board:

F. COCHRANE, *Director*

F. S. MARTIN, *Director*

(See accompanying notes)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1976

	1976	*1975*
Funds were obtained from:		
Net income for the year	$ 928,220	*$ 1,233,654*
Depreciation, an item not requiring a current outlay of funds	333,433	*290,045*
	1,261,653	*1,523,699*
Funds were applied to:		
Expenditures on fixed assets	1,671,273	*421,561*
Dividends	305,737	*335,645*
Tax paid on undistributed income	54,000	*58,650*
	2,031,010	*815,856*
Increase (decrease) in working capital	(769,357)	*707,843*
Working capital, beginning of year	9,823,261	*9,115,418*
Working capital, end of year	$ 9,053,904	*$ 9,823,261*

(See accompanying notes)

AUDITORS' REPORT

To the Shareholders of
Cochrane-Dunlop Limited:

We have examined the consolidated balance sheet of Cochrane-Dunlop Limited as at December 31, 1976 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Cochrane-Dunlop Limited as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
March 31, 1977.

CLARKSON, GORDON & CO.
Chartered Accountants

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1976

1. Summary of significant accounting policies

(a) Basis of consolidation—

The consolidated financial statements include the accounts of the Corporation and all of its subsidiaries and include the earnings of the subsidiaries since acquisition.

(b) Inventories—

Inventories are valued at the lower of cost, determined on a first-in first-out basis, and net realizable value.

(c) Depreciation—

The Corporation and its subsidiaries provide for depreciation on fixed assets on the reducing balance method. The rates of depreciation are:

	Rate
Buildings and equipment	5% and 10%
Furniture and fixtures	20%
Automotive equipment	30%

2. Share Capital

The authorized capital of the Corporation consists of 1,500,000 common shares without par value of which 926,476 common shares are issued as fully paid and non-assessable.

3. Lease commitments

The Corporation is committed to annual rental payments of approximately $232,000 on leases expiring in the years 1977 to 1992.

4. Anti-Inflation legislation

The Corporation is subject to mandatory compliance with the controls on prices, profit margins, employee compensation and shareholder dividends imposed by the Anti-Inflation Act which became effective from October 14, 1975.

Under the Act, dividends to the Corporation's common shareholders during the year ending October 13, 1977 may not exceed 33¢ per share.

10-YEAR STATISTICAL SUMMARY

(figures in thousands except ratios, shares, and amounts per share)

FOR THE YEAR	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967
Sales	$67,089	$62,883	$58,025	$45,115	$39,294	$41,815	$41,516	$35,751	$35,662	$33,112
Depreciation	333	290	249	179	188	202	202	215	218	182
Interest on bank indebtedness	547	466	383	132	65	88	119	141	81	35
Income taxes	880	1,270	1,330	820	640	630	550	385	570	487
Net income	928	1,234	1,195	793	675	613(b)	489	360(b)	519	457
% to sales	1.4%	2.0%	2.1%	1.8%	1.7%	1.5%(b)	1.2%	1.0%(b)	1.4%	1.4%
per common share (note a)	1.00	1.35	1.38	.91	.77	.69(b)	.55	.40(b)	.59	.52
Dividends—total	306	336	200	128	128	128	128	128	128	128
Per share (note a)										
—Class A	—	.05	.20	.20	.20	.20	.20	.20	.20	.20
—Common	.33	.36	.22	.13	.13	.13	.13	.13	.13	.13
Expenditures on fixed assets	1,671	422	469	564	88	202	89	151	492	357
Increase (decrease) in working capital	(769)	708	742	260	626	503	473	365	117	154
AT YEAR END										
Working capital	9,054	9,823	9,115	8,373	8,114	7,488	6,985	6,512	6,147	6,031
Shareholders' equity	13,364	12,795	11,956	10,993	10,348	9,822	9,319	8,958	8,657	8,267
Shares outstanding (note c)										
—Class A	—	—	17,092	17,092	17,092	17,092	17,092	17,092	17,092	17,092
—Common	926,476	926,476	143,018	143,018	143,018	143,018	143,018	143,018	143,018	143,018

Notes:

a Based on average number of shares outstanding and adjusted for capital stock reorganization and split in 1975.

b Before adding Extraordinary Items of: 1971—$25,000 or $0.03 per common share.
1969—$68,904 or $0.08 per common share.

c Capital stock was reorganized effective on June 11, 1975.

CORPORATE DIRECTORY

COCHRANE-DUNLOP LIMITED

HEAD OFFICE:
160 BLOOR STREET EAST,
TORONTO, ONTARIO M4W 1C4

Directors
E. A. Bird, Toronto, Ontario
A. Gordon Cardy, Toronto, Ontario
G. R. Chater, Toronto, Ontario
F. Cochrane, Toronto, Ontario
D. Higgins, Toronto, Ontario
F. S. Martin, Ottawa, Ontario
F. F. Todd, Oakville, Ontario

Wholly-Owned Subsidiary Companies
C-D Hardware Sales Limited
Cochrane-Dunlop Hardware—Quebec, Inc.
Cochrane-Dunlop Hardware Manitoba Limited
Cochrane-Dunlop Hardware Saskatchewan Limited
Dominion Hardware Stores Limited
Cochrane-Dunlop Alberta Limited
Cochrane-Dunlop, Inc. (Buffalo, N.Y., U.S.A.)

Wholesale Branches
ONTARIO
Dryden—*264 Government Street, Dryden.*
Elliot Lake—*2 Roddis Road, Elliot Lake.*
Little Current—*Vankoughnet Street, Little Current.*
North Bay—*881 Jet Avenue, North Bay.*
Sault Ste. Marie—*550 Second Line East, Sault Ste. Marie.*
Sudbury—*122 Douglas Street W., Sudbury.*
Thunder Bay—*425 Eleventh Avenue, Thunder Bay.*
Toronto (Dealer Supply)—*1385 Bloor Street West, Toronto.*
Toronto (Industrial Supply)—*50 Woodbine Downs Boulevard, Rexdale.*
Wawa—*Government Road, Wawa.*

QUEBEC
Val d'Or—*1337 Harricana Street, Val d'Or.*

MANITOBA
Thompson—*Station Road, Thompson.*

SASKATCHEWAN
Esterhazy—*4 East Drive, Esterhazy.*
Saskatoon—*2525 Wentz Avenue, Saskatoon.*

ALBERTA
Calgary—*4215-58 Avenue S.E., Calgary.*

Retail Branches
ONTARIO

Copper Cliff	Hamilton	North Bay	Sault Ste. Marie
Guelph	Lively	Oakville	Sudbury(2)

Officers
F. Cochrane, *President*
D. Higgins, *Executive Vice-President and General Manager*
R. L. T. Baillie, *Vice-President—Finance*

Counsel
Shibley, Righton & McCutcheon

Auditors
Clarkson, Gordon & Co.

Transfer Agent and Registrar
The Canada Trust Company—Toronto

COCHRANE-DUNLOP LIMITED

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	three months ended March 31 1976	1975
Funds were obtained from:		
Net income for the period.....	$ 114,039	$ 145,896
Depreciation, an item not requiring a current outlay of funds..................	71,100	62,200
	185,139	208,096
Funds were applied to:		
Expenditures on fixed assets..	126,899	65,453
Dividends..................	—	39,173
Tax paid on undistributed income..................	—	6,300
	126,899	110,926
Increase in working capital......	$ 58,240	$ 97,170
Working capital at March 31st...	$9,881,501	$9,212,588

Note: Subject to year end audit and adjustment.

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COCHRANE-DUNLOP

LIMITED

AND SUBSIDIARY COMPANIES

Interim Report for the three months ended March 31, 1976

HEAD OFFICE
160 BLOOR STREET EAST
TORONTO, ONTARIO
PHONE 416/921-3103

COCHRANE-DUNLOP LIMITED

AND SUBSIDIARY COMPANIES

REPORT FOR THE THREE MONTHS ENDED MARCH 31, 1976

TO THE SHAREHOLDERS:

Sales for the first quarter of 1976 were $14,289,857, an increase of 8.6% over sales for the first quarter of 1975. Shipments of the dealer supply division made excellent progress and volume of the new Toronto Industrial supply branch approached planned targets. Volumes of other branches and divisions reflected, generally, the effect of economic trends on the market areas and industries served by our Company; some slowing down in industrial activity is apparent in some areas, no doubt generated in part by government controls and programs; however, the development of new lines and new market areas is producing satisfactory results and it is expected that the incidents of reduced demand will be temporary in nature.

Earnings for the first quarter of 1976 were $114,039 a decrease of 21.8% from the 1975 first quarter. Earnings per share were 12 cents compared with an adjusted 17 cents in the 1975 period. Per share earnings reflect the effect of the capital stock split of June 1975 and are based on the average number of shares outstanding during the periods.

Margins for the period were fractionally lower than in the earlier period, while expenses, for both personnel and services, were influenced by the inflationary trends of 1975 and increased in most areas. Inflation based increases are expected to continue in 1976 possibly at a reduced rate, and in particular, transportation and heating costs will increase as a result of proposed fuel price increases.

Expenditures on fixed assets include costs of additional equipment to support the electronic order entry system for dealers, which has been well received and is operating most satisfactorily; and regular costs of replacement and upgrading of facilities and material-handling and storage equipment.

It should be recognized that the first quarter of the year is traditionally the lowest quarter of the year in terms of both sales and net income and not directly indicative of a trend for the year. The outlook for 1976 is favourable and, particularly in view of current volume trends, we are optimistic that it will prove to be a year of satisfactory progress.

Toronto, Canada
May 21, 1976

F. COCHRANE
President
Frank

COCHRANE-DUNLOP LIMITED

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME

	three months ended March 31 1976	1975
Sales	$14,289,857	$13,161,998
Costs and expenses, exclusive of the following items	$13,901,694	12,712,584
Depreciation	71,100	62,200
Interest on bank indebtedness	95,024	92,318
	14,067,818	12,867,102
Income before income taxes	222,039	294,896
Income taxes	108,000	149,000
Net income for the period	$ 114,039	$ 145,896
Net income per common share	$ 0.12	$ .17

Note: (a) Subject to year end audit and adjustment.

(b) 1975 net income per common share has been restated to reflect the capital stock reorganization and split on June 11, 1975.

COCHRANE-DUNLOP LIMITED
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	six months ended June 30 1976	1975
Funds were obtained from:		
Net income for the period	$ 504,181	$ 504,809
Depreciation, an item not requiring a current outlay of funds	142,200	124,485
	646,381	629,294
Funds were applied to:		
Expenditures on fixed assets	582,743	101,649
Dividends	92,647	85,497
Tax paid on undistributed income	16,350	14,550
	691,740	201,696
Increase (decrease) in working capital	$ (45,359)	$ 427,598
Working capital at June 30th	$9,777,902	$9,543,016

Note: Subject to year end audit and adjustment.

Concord

COCHRANE-DUNLOP
LIMITED
AND SUBSIDIARY COMPANIES

Interim Report for the six months ended June 30, 1976

HEAD OFFICE
160 BLOOR STREET EAST
TORONTO, ONTARIO
PHONE 416/921-3103

COCHRANE-DUNLOP LIMITED
AND SUBSIDIARY COMPANIES

REPORT FOR THE SIX MONTHS ENDED JUNE 30, 1976

TO THE SHAREHOLDERS:

Sales for the first half of 1976 were $32,752,010, an increase of 7.5% over sales in the same period of 1975. The improvement over 1975 is at a slightly lower rate in the second quarter than in the first quarter of the year, although the factors noted in our previous report still continue—good dealer supply volume and improved volume in specific industrial branch locations based on new product lines and market areas. In our last report an apparent slowing down in general industrial activity was indicated. This trend is continuing to develop and new capital development projects do not appear to be reaching the commitment stage to replace projects, previously committed, which are now being finalized. Investment uncertainty relating to the effects of the Anti-Inflation program, the level of expenditures by both Federal and Provincial governments and the timing of government incentive programs relating to housing starts, have influenced the trend of industrial activity and are affecting industrial sales levels.

Price inflation is lower at the present time than in either 1974 or 1975. In the short term this tends to restrain sales, and, to some extent, profits as reported. However, in the longer term, and particularly if effective control of inflation can be maintained, the results will be beneficial so far as cash flow is concerned, as available funds will no longer be directed to financing increasingly higher inventory values and income taxes will no longer be payable on inflation-based profits.

Earnings for the first half of 1976 of $504,181 are essentially equal to the results for the same period in 1975 although earnings per share show a decrease to 54¢ from the 57¢ earned in 1975. The profit shortfall of the first quarter has in fact been overcome in the second quarter of 1976. Earnings per share for the first half of 1975 have been restated to reflect the reorganization of capital stock which was completed in June 1975.

The position of the Corporation under Anti-Inflation Regulations and rulings is difficult to assess as a result of the introduction in June, 1976 of revised profit guidelines on a preliminary basis. While it would appear that, as a distributor, we comply with the new rules as far as pricing and profits are concerned, and all reporting requirements have been met, final and definitive procedures under the revised policy have not yet been issued by the Anti-Inflation Board and our absolute position relating to the controls is not assured. At the present time no major problem is expected in this area.

In June 1976 your Board of Directors approved a major expansion of the business into the Alberta market and land has been acquired and construction of an industrial supply warehouse has been started. This warehouse, of 50,000 square feet will be located in an industrial suburb of Calgary, Alberta and will service the buoyant southern Alberta and British Columbia markets. It is expected that this warehouse will permit growth beyond these areas when the operation has matured. While opening this important and growing market will be difficult we are of the opinion that the long-term prospects of the move are attractive. It is expected that basic construction of this warehouse will be completed by the end of 1976.

Fixed asset expenditures include the cost to complete the expansion of our warehouse in Saskatoon, Saskatchewan which was commenced in 1975 and is now in operation, and the initial costs, including land purchase, for the warehouse in Calgary, Alberta, referred to previously, and regular renovation and equipment upgrading.

Toronto, Canada
August 23, 1976

F. COCHRANE
President

COCHRANE-DUNLOP LIMITED
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME

	six months ended June 30 1976	six months ended June 30 1975
Sales	$32,752,010	$30,466,242
Costs and expenses, exclusive of the following items	31,399,232	29,102,412
Depreciation	142,200	124,485
Interest on bank indebtedness	237,397	224,536
	31,778,829	29,451,433
Net income before income taxes	973,181	1,014,809
Income taxes	469,000	510,000
Net income for the period	$ 504,181	$ 504,809
Net income per common share (note)	$ .54	$ .57

Notes: (a) Subject to year end audit and adjustment.
(b) 1975 net income per common share has been restated to reflect the capital stock reorganization and split on June 11, 1975.